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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-23-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-23-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	DIRECT TESTIMONY OF
NATURAL GAS SERVICE TO ELECTRIC	)	ELIZABETH M. ANDREWS
AND NATURAL GAS CUSTOMERS IN THE	)	IN SUPPORT OF
STATE OF IDAHO	)	STIPULATION

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

Q. Please state your name, employer, and business address.

A. My name is Elizabeth M. Andrews and I am employed by Avista Corporation ("Company" or "Avista") as Senior Manager of Revenue Requirements in the Regulatory Affairs Department, at 1411 East Mission Avenue, Spokane, Washington.

Q. Have you previously provided direct testimony in this Case?

A. Yes. I filed direct testimony and exhibits in this proceeding supporting various adjustments I sponsored, that were included by Company witness Ms. Schultz within her overall electric and natural gas revenue requirement studies prepared for the Company's proposed Two-Year Rate Plan effective September 1, 2023, through August 31, 2025. The adjustments I supported included the following: 1) Pro Forma Wildfire Plan Expenses, 2) Pro Forma Insurance Expense, 3) Pro Forma EDIT (RSGM)[1], 4) Pro Forma Miscellaneous Operations and Maintenance (O&M) Expense, and 5) Pro Forma Colstrip Capital Additions & Amortization Expense.

In addition to the various accounting adjustments I sponsored, I discussed the Company's requests to update its Wildfire Balancing Account baseline to match pro formed wildfire plan expenses, as well as the Company's proposal to establish an Insurance Expense Balancing Account and baseline to reflect the significant increase and volatility associated with insurance expenses. Finally, I discussed the accounting methodology change related to the Company's Excess Deferred Income Taxes (EDIT) expense that has occurred since the Company's prior general rate

[1] Reverse South Georgia Method

case, and provided an update on the Company's electric and natural gas deferred federal tax credit balances.[2]

Q. What is the scope of this testimony?

A. The purpose of this testimony is to describe and support the electric and natural gas revenue requirement elements of the Stipulation and Settlement ("Stipulation") filed on June 14, 2023, as well as explain why the Stipulation is in the public interest. The parties to the Stipulation include the Staff of the Idaho Public Utilities Commission ("Staff"), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), and Walmart Inc. These entities are collectively referred to as the "Settling Parties" and singularly as a "Settling Party." The remaining parties, the Idaho Conservation League / NW Energy Coalition ("ICL/NWEC"), do not join in the Settlement.

Company witness Mr. Ehrbar discusses the non-revenue related elements of the Stipulation agreed to by the Settling Parties, such as electric and natural gas Cost of Service, Rate Spread and Rate Design, as well as other Stipulation components related to the Power Cost Adjustment (PCA) and Fixed Cost Adjustment (FCA) authorized levels.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 19, which is a copy of the Stipulation and appendices filed with the Commission on June 14, 2023.

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[2] Company witness Ms. Schultz direct testimony covered accounting and financial data in support of the Company's Two-Year Rate Plan for the period September 1, 2023 through August 31, 2025. In that testimony she explained pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base for the over the two-year period.

II. SUMMARY OF ORIGINAL FILING

Q. Please describe the Company's general rate case request, as filed.

A. On February 1, 2023, Avista filed an Application with the Commission for authority to increase revenue effective September 1, 2023, and September 1, 2024, for electric and natural gas service in Idaho. The Company proposed a "Two-Year Rate Plan" with an increase in electric base revenue of $37.5 million or 13.6% for "Rate Year 1", and $13.2 million or 4.2% for "Rate Year 2". With regard to natural gas, the Company proposed an increase in base revenue of $2.8 million or 6.0% for "Rate Year 1", and $120,000 or 0.3% for "Rate Year 2".

The Company used the results of the electric and natural gas cost of service studies (sponsored by Mr. Garbarino and Mr. Anderson) as a guide to spread the general increase. In this case, for electric operations, the study showed Residential Service Schedule 01, Large General Service Schedules 21/22, and Pumping Service Schedule 31/32 provide less than the overall rate of return under present rates. All of the other service schedules provide more than the overall rate of return under present rates to varying degrees. For natural gas operations, the study indicated that the General Service Schedule 101 (serving most residential customers) is providing less than the overall rate of return (unity), and Large General, and Transportation service schedules (111/112 and 146) are providing more than unity.

Q. What are the primary factors driving the Company's need for an electric and natural gas change in rates?

A. The primary factor driving the Company's electric and natural gas revenue requirements in RY1 and RY2 is an increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest) from that currently authorized.[3] For RY1 and RY2, electric net power supply expenses also contribute significantly to the incremental electric revenue requirement. Other changes impacting the Company's revenue requirement requests relate to increases in distribution, operation and maintenance (O&M), and administrative and general (A&G) expenses for both electric and natural gas operations, compared to current authorized levels.

Electric specific capital investments for the 2022/2023 period include, among other things, upgrades to certain major generating facilities, such as the Long Lake and Little Falls Plant Upgrades, Cabinet Gorge Dam Fishway and other replacements or upgrades, the Kettle Falls Fuel Yard Equipment Replacement, as well as capital investment associated with the Clark Fork and Spokane River License agreements, discussed by Company witness Mr. Kinney.

For natural gas, specific capital investments over the period 2022/2023 period include, among other things, capital investments related to the Gas Facilities Replacement (Aldyl A) and Jackson Prairie Joint Project, as well as Gas Replacement Street and Highway Program, discussed by Company witness Mr. DiLuciano.

For power supply, on direct, as discussed by Company witness Mr. Kalich, the level of Idaho's share of power supply expense effective with Rate Year 1 has

[3] The specific 2022 through August 2025 pro forma capital expenditures undertaken by the Company to expand and replace its generation, transmission, distribution and general facilities are discussed further by Company witnesses Mr. Kinney regarding production investment (including the Company's investment in Colstrip Units 3 and 4), Mr. DiLuciano regarding transmission, distribution and general investment, Mr. Kensok regarding the costs associated with Avista's IS/IT projects, Mr. Howell regarding Wildfire Plan investments, and Ms. Hydzik regarding customer technology projects.

increased by approximately $10.3 million ($29.8 million on a system basis) from the level currently included in base rates.

III. SUMMARY OF SETTLEMENT STIPULATION

Q. Would you briefly summarize the Stipulation?

A. Yes. Under the terms of the Stipulation, as discussed further by Mr. Ehrbar, Avista would implement revised tariff schedules designed to increase annual base electric revenues by $22,134,000, or 8.0%, effective September 1, 2023, and increase base revenues by $4,305,000, or 1.4%, effective September 1, 2024. For natural gas, the Settling Parties agree that Avista will increase natural gas base revenue by $1,252,000, or 2.7%, effective September 1, 2023, and increase natural gas base revenue $3,000, or 0.1%, effective September 1, 2024. These rate changes are designed to provide retail revenues necessary to allow the Company the opportunity to earn the rate of return agreed to in the Stipulation for RY1 and RY2.

As noted by Mr. Ehrbar, effective September 1, 2023, an electric residential customer using an average of 927 kilowatt hours per month would see a $10.15, or 11.9%, increase per month for a revised monthly bill of $95.55. Effective September 1, 2024, an electric residential customer would see a $2.06, or 2.2%, increase per month for a revised monthly bill of $97.61.

For natural gas, effective September 1, 2023, a natural gas residential customer using an average of 64 therms per month would see a $1.20, or 1.6%, increase per month for a revised monthly bill of $74.62. Effective September 1, 2024, a natural gas residential customer would see a $0.03, or 0.0%, increase per month for a revised monthly bill of $74.65.

In determining these revenue changes, the Settling Parties have agreed to various adjustments to the Company's original filing, which are summarized in the Stipulation, and described further in the testimony below.

The Stipulation calls for an overall rate of return of 7.19%, determined using a capital structure consisting of 50% common stock equity and 50% debt, an authorized return on equity of 9.4% and cost of debt of 4.97%.

With regard to the Two-Year Rate Plan, during the September 1, 2023 – August 31, 2025 rate period covered by this Stipulation, Avista will not file another electric or natural gas general rate case to increase base rates in which rates would go into effect prior to September 1, 2025. This does not apply to tariff filings authorized by or contemplated by the terms of the PCA, FCA, Purchased Gas Cost Adjustment (PGA), or other miscellaneous annual/regular tariff filings.

Lastly, the Settling Parties agreed to certain rate spread and rate design changes as described by Mr. Ehrbar in his supporting testimony, as well as other Stipulation components related to the PCA and FCA, as well as agreed-upon meetings/conferences.

Q. Please explain how the Settling Parties arrived at the Stipulation in this proceeding.

A. The Stipulation is the product of settlement discussions held on June 1, 2023. It represents a compromise among differing points of view, with concessions made by the Settling Parties, to reach a balancing of interests. The Stipulation represents a fair, just and reasonable compromise of the issues and is in the public interest. In addition, the Stipulation is the end result of extensive audit work conducted through the discovery process[4], including various virtual conference discussions with Commission Staff, and hard bargaining by the Settling Parties in this proceeding.

Q. Why is the Stipulation in the public interest?

A. The Stipulation is in the "public interest" for several reasons. The Stipulation was the product of the give-and-take of negotiation that produced an "end result" that is just and reasonable. In addition, it is supported by the evidence, demonstrating the need for rate adjustments to provide recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. The Stipulation enjoys broad-based support from a variety of constituencies, including Clearwater, Idaho Forest, Walmart and Staff.

IV. ELECTRIC REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

Q. Please explain the derivation of the Electric Revenue Requirement outlined in the Stipulation.

A. The Settling Parties agreed that electric revenue increases are necessary, effective September 1, 2023 and September 1, 2024. While Avista's filing requested electric revenue requirement increases of $37.5 million and $13.2 million, effective September 1, 2023 and September 1, 2024, respectively, the Settling Parties agreed-upon adjustments, including the agreed-upon rate of return, result in recommended electric revenue increases of approximately $22.1 million and $4.3 million, respectively. These increases are designed to provide sufficient retail

[4] Avista responded to over 400 production requests (including sub-parts) from the Parties.

revenues for the September 1, 2023 through August 31, 2025 two-year rate period, which would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

Q. Please explain the Settling Parties' agreement with regard to an Authorized Rate of Return, including the Return on Equity.

A. The Settling Parties have agreed to an overall rate of return of 7.19%, based on a return on equity of 9.4% (also the current authorized level), an equity component at 50% and cost of debt of 4.97%. By comparison, the Company's original filing requested an overall rate of return of 7.59%, a return on equity of 10.25%, an equity component of 50% and cost of debt of 4.92%.

Q. Please provide an overview of the electric revenue requirement adjustments agreed to by the Settling Parties for rates effective September 1, 2023 [Rate Year 1].

A. The Settling Parties agreed to an electric revenue requirement effective September 1, 2023, that reflects the adjustments shown below in the excerpted table from the Stipulation:

Table No. 1: Electric Revenue Requirement – RY1

SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
EFFECTIVE SEPTEMBER 1, 2023
(000s of Dollars)

		Revenue Requirement	Rate Base
	Amount as Filed:	**$ 37,462**	**$ 1,034,938**
	Adjustments:		
a.)	Cost of Capital	$ (5,343)	
b.)	Remove 2024 AMA Capital Additions	$ (3,051)	$ (17,554)
c.)	Revise Wildfire Deferral Amortizations	$ (2,062)	
d.)	Remove Officer Incentives and 2023 Officer Labor Increases	$ (418)	
e.)	Remove 2024 Union and Non-Union Labor Increases	$ (516)	
f.)	Update Regulatory Assessment Fee and Conversion Factor	$ (4)	
g.)	Remove Pro Forma 401K Expenses	$ (41)	
h.)	Remove Escalated Miscellaneous O&M Expense	$ (2,560)	
i.)	Remove Pro Forma WRAP Expenses	$ (121)	
j.)	Restate Net Pro Forma Power Supply Expense	$ (500)	
k.)	Adjust Pro Forma Insurance Expense	$ (298)	
l.)	Miscellaneous Adjustments: Board of Director expenses, Fee Free expense adjustment, cell phone savings, O&M expense, removal of Sandpoint Weatherization loans and reclassification of other administrative and general expenses.	$ (414)	$ (59)
	Adjusted Amounts Effective September 1, 2023	**$ 22,134**	**$ 1,017,325**

As can be seen by a review of the individual line descriptions provided within the summary table above, the adjustments accepted for settlement purposes cover a broad range of revenue and cost categories, including the authorized rate of return. The individual adjustments should not be viewed in isolation; rather, they should be viewed in total as part of the entire Stipulation and are the result of hard bargaining and compromise.

Q. Would you please elaborate on the individual line items contained within Table No. 1?

A. Yes. A description of the adjustments resulting in the electric revenue requirement, effective September 1, 2023, follows.

<u>Cost of Capital</u> – (line a.) The overall revenue requirement reduction related

to the cost of capital reduces the overall revenue requirement for electric by $5,343,000. The agreed-upon cost of capital components are shown in the table below:

Component	Capital Structure	Cost	Weighted Cost
Total Debt	50.00%	4.97%	2.49%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.19%

Remove 2024 AMA Capital Additions – (line b.) This adjustment removes the Company's capital additions beyond August 31, 2023, included by the Company for Rate Year 1, reflecting only plant investment prior to the September 1, 2023, effective date. This adjustment decreases the overall revenue requirement by $3,051,000 and reduces net rate base by $17,554,000.

Revise Wildfire Deferral Amortizations – (line c.) This adjustment revises the Company's proposed amortization of its two Wildfire Regulatory Deferred Asset balances: 1) Wildfire Resiliency Plan Expense Deferral and 2) Wildfire Expense Balancing Account deferral, for the period July 1, 2020 through September 30, 2022 of $8.2 million, from a two (2) year amortization to a four (4) year amortization. This adjustment reduces the overall revenue requirement by $2,062,000. See Wildfire Balancing Account discussion at Section VI. "Other Settlement Components" below.

Remove Officer Incentives and 2023 Officer Labor Increases – (line d.) This adjustment reflects the removal of officer incentives and 2023 incremental officer labor proposed by the Company. This adjustment decreases the overall revenue requirement by $418,000.

Remove 2024 Union and Non-Union Labor Increases – (line e.) This adjustment removes 2024 union and non-union labor increases included by the Company, reflecting 2023 labor increases for union and non-union employees. This adjustment decreases the overall revenue requirement by $516,000.

Update Regulatory Assessment Fee and Conversion Factor – (line f.) This adjustment reflects the April 2023 adjusted IPUC Regulatory Assessment Fee, per Order No. 35743, of 0.001982, and the impact on the Company's Conversion Factor. This adjustment decreases the overall revenue requirement by $4,000.

Remove Pro Forma 401K expenses – (line g.) This adjustment removes certain pro formed 401K expenses, leaving those actual 401K expenses per the filed historical test period. This adjustment decreases the overall revenue requirement by $41,000.

Remove Escalated Miscellaneous O&M Expenses – (line h.) This adjustment removes the escalated O&M expense pro formed by the Company. This adjustment decreases the overall revenue requirement by $2.56 million.

Remove Pro Forma WRAP Expenses – (line i.) This adjustment removes the pro formed Western Regional Adequacy Program (WRAP) expenses included by the Company. This adjustment decreases the overall revenue requirement by $121,000.

Restate Net Power Supply Expense – (line j.) This adjustment revises net power supply costs as discussed below, decreasing the overall revenue requirement by $500,000. See Power Cost Adjustment (PCA) discussion described by Mr. Ehrbar.

- Authorized Net Power Supply (line i.) The Settling Parties agree to leave system net power supply expense as approved in Case No.

AVU-E-21-01 totaling $149,279,000, adjusted to reflect items ii. and iii below, resulting in a revised system net power supply expense of $177,585,000. Idaho's share of net power supply costs reflects a production and transmission (P/T) ratio of 34.47%.

- Palouse and Rattlesnake Flat Wind (line ii.) The Settling Parties agree to include the Palouse Wind and Rattlesnake Flat Wind Power Purchase Agreements ("PPA") in base rates at 90%. 90% of actual net power costs for these projects will then be compared to this 90% base amount to calculate the base-to-actual difference that will be reflected in the PCA mechanism. This adjustment increases system net power supply expense $29,313,000.

- Remove Columbia Basin Hydro Transmission Costs (line iii.) Remove cost of Columbia Basin Hydro Transmission costs. This adjustment decreases system net power supply expense by $1,007,000.

Pro Forma Insurance Expense – (line k.) This adjustment reduces pro formed insurance expense for certain escalated assumptions used to calculate Rate Year 1 insurance expense levels. This adjustment decreases the overall revenue requirement by $298,000. See Insurance Balancing Account discussion at Section VI. "Other Settlement Components" below.

Miscellaneous Adjustments – (line l.) The following adjustment reflects the net change in operating expenses related to: 1) removing Board of Director expenses and fees ($242,000); 2) including cell phone savings ($36,000); 3) removing pro forma Fee Free expense ($27,000); 4) removal of historical Sandpoint Weatherization loans[5] ($5,000 expense and $59,000 rate base); removal of other miscellaneous transmission O&M expenses associated with the Company's Wildfire Open Access Transmission Tariff ($102,000) and A&G expenses ($2,000). The net

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[5] Sandpoint weatherization loans relate to weatherization and DSM investment included in rate base (FERC account 124.350). Beginning in July 1994, accumulation of allowance for funds used to conserve energy (AFUCE) ceased on electric DSM and full amortization began on the balance based on the measure lives of the investment. Beginning in 1995, the amortization rates were accelerated to achieve a 14-year weighted average amortization period, which was completed in 2010. Remaining as an Idaho rate base item is the weatherization loan balance of approximately $59,000.

effect of this adjustment decreases the overall revenue requirement by $414,000 and rate base by $59,000.

Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Settling Parties effective September 1, 2023 [Rate Year 1].

A. The adjustments discussed above, and agreed to by the Settling Parties, reduce Avista's proposed RY1 electric revenue requirement increase of $37.5 million to an electric revenue requirement increase of $22.4 million, resulting in an overall 8.0% electric base rate increase, effective September 1, 2023. The net rate base agreed to by the Settling Parties for electric services is $1.017 billion. Mr. Ehrbar discusses the overall net bill impact to customers in RY1 of 8.7% effective September 1, 2023.

Q. Please provide an overview of the incremental electric revenue requirement components agreed to by the Settling Parties effective September 1, 2024 [Rate Year 2].

A. The Settling Parties agreed to an incremental electric revenue increase effective September 1, 2024 (RY2), that reflects the adjustments shown below in the excerpted table from the Stipulation:

<u>Table No. 2: Electric Revenue Requirement – RY2</u>

	EFFECTIVE SEPTEMBER 1, 2024 (000s of Dollars)		
		Revenue Requirement	**Rate Base**
	Rate Base Amount Effective September 1, 2023		**$ 1,017,325**
	Incremental Revenue Adjustment to September 1, 2023 Rate Change (see Table No. 1):		
a.)	Add Incremental 2023/2024 Related Capital and Expenses:		
i.	AMA 2024 Capital Additions	$ 4,888	$ 17,554
ii.	Property Tax Expense	$ 706	
iii.	2024 Union Labor Increase	$ 410	
iv.	Employee Benefits	$ 255	
v.	2024 Growth Revenue	$ (1,939)	
vi.	Revise Colstrip/CS2 Major Maintenance Expense	$ 247	
vii.	Remove Expiring Fee Free Amortization Expense	$ (97)	
viii.	Miscellaneous Other Expense Offsets	$ (165)	
	September 1, 2024 Incremental Revenue Adjustment and Rate Base Amount (above September 1, 2023 Rate Change - see Table No. 1)	**$ 4,305**	**$ 1,034,879**

Q. Please elaborate on the individual line items contained within Table No. 2.

A. A description of the adjustments resulting in the electric revenue requirement, effective September 1, 2024 for RY2, follows.

<u>Add Incremental 2023/2024 Related Capital and Expenses to Rate Year 2 (incremental above Rate Year 1)</u> – (line a.) This item includes certain incremental increases in 2023 and 2024 related to capital and expenses in RY2, above RY1 levels, as follows:

- <u>AMA 2024 Capital Additions</u> – (line i.) Includes capital additions from September 1, 2023 through August 31, 2024 on an AMA basis, prior to the Rate Year 2 September 1, 2024, effective date. This adjustment increases the overall revenue requirement by $4,888,000 and increases net rate base by $17,554,000.

- Property Tax Expense – (line ii.) Includes incremental property tax expense above Rate Year 1 levels, associated with 2023 capital additions. This adjustment increases the overall revenue requirement by $706,000.
- 2024 Union Labor Increases – (line iii.) Includes the 2024 union annualized labor increases. This adjustment increases the overall revenue requirement by $410,000.
- Employee Benefits – (line iv.) Includes 2024 incremental employee benefit expenses above Rate Year 1 levels. This adjustment increases the overall revenue requirement by $255,000.
- 2024 Growth Revenue – (line v.) Reflects the 2024 incremental revenue associated with 2024 growth capital, matching the inclusion of 2024 capital investment. This adjustment decreases the overall revenue requirement by $1,939,000.
- Colstrip/CS2 Major Maintenance – (line vi.) Revises the Colstrip/CS2 Major Maintenance expense level included in Rate Year 1 to reflect the revised expense for Rate Year 2. This adjusts maintenance expense to one-third of each amount deferred for calendar years 2022 through 2024. This adjustment increases the overall revenue requirement by $247,000.
- Fee Free Expense – (line vii.) Reflects the removal of the expiring Fee Free Amortization and expense on August 31, 2024. This adjustment decreases the overall revenue requirement by $97,000.
- Miscellaneous O&M Expense – (line viii.) Reflects an agreed-to reduction of O&M expense. This adjustment decreases the overall revenue requirement by

$165,000.

Q. Please summarize the impact of these adjustments on the electric revenue requirement agreed to by the Settling Parties effective September 1, 2024 [Rate Year 2].

A. The adjustments discussed above, and agreed to by the Settling Parties, reduces Avista's RY2 electric revenue requirement of $13.2 million to $4.3 million, resulting in a 1.4% electric <u>base</u> rate increase, effective September 1, 2024. The net rate base agreed to by the Settling Parties for electric is $1.035 billion. Mr. Ehrbar discusses the overall net <u>bill</u> impact of 1.6% to customers in RY2 effective September 1, 2024.

V. NATURAL GAS REVENUE REQUIREMENT ELEMENTS OF THE STIPULATION

Q. Please explain the derivation of the Natural Gas Revenue Requirement outlined in the Stipulation.

A. The Settling Parties agreed that natural gas revenue changes are necessary, effective September 1, 2023 and September 1, 2024. While Avista's filing requested natural gas revenue requirement increases of $2.8 million and $120,000, effective September 1, 2023 and September 1, 2024, respectively, the Settling Parties agreed-upon adjustments, including the agreed-upon rate of return, result in a natural gas revenue increase of $1,252,000 effective September 1, 2023, and a natural gas revenue increase of $3,000 effective September 1, 2024. These changes in revenue are designed to provide sufficient retail revenues for the September 1, 2023 through August 31, 2025 two-year rate period, which would provide the Company with the opportunity to earn the return agreed to in the Stipulation.

Q. Is the Authorized Rate of Return, including the Return on Equity the same as that explained above for electric?

A. Yes. Consistent with that for electric, the Settling Parties have agreed to an overall rate of return of 7.19%, based on a return on equity of 9.4%, an equity component at 50% and cost of debt of 4.97%.

Q. Please provide an overview of the natural gas revenue requirement adjustments agreed to by the Settling Parties for rates effective September 1, 2023 [Rate Year 1].

A. The Settling Parties agreed to a natural gas revenue requirement effective September 1, 2023, that reflects the adjustments shown below in the excerpted table from the Stipulation:

Table No. 3: Natural Gas Revenue Requirement – RY1

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT EFFECTIVE SEPTEMBER 1, 2023 (000s of Dollars)

		Revenue Requirement	Rate Base
	Amount as Filed:	**$ 2,771**	**$ 206,562**
	Adjustments:		
a.)	Cost of Capital	$ (1,066)	
b.)	Remove 2024 AMA Capital Additions	$ (142)	$ (2,978)
c.)	Remove Officer Incentives and 2023 Officer Labor Increases	$ (98)	
d.)	Remove 2024 Union and Non-Union Labor Increases	$ (115)	
e.)	Update Regulatory Assessment Fee and Conversion Factor	$ (1)	
f.)	Remove Pro Forma 401K Expenses	$ (10)	
g.)	Miscellaneous Adjustments: Board of Director expenses, Fee Free expenses, cell phone savings, and injuries and damages expenses.	$ (87)	
	Adjusted Amounts Effective September 1, 2023	**$ 1,252**	**$ 203,584**

Q. Would you please elaborate on the individual line items contained within Table No. 3?

A. Yes. A description of the adjustments resulting in the natural gas revenue requirement, effective September 1, 2023, follows.

Cost of Capital – (line a.) As previously described (see above). This adjustment reduces the overall revenue requirement by $1,066,000.

Remove 2024 AMA Capital Additions – (line b.) This adjustment removes the Company's capital additions beyond August 31, 2023, included by the Company for Rate Year 1, reflecting only plant investment prior to the September 1, 2023, effective date. This adjustment decreases the overall revenue requirement by $142,000 and reduces net rate base by $2,978,000.

Remove Officer Incentives and 2023 Officer Labor Increases – (line c.) This adjustment reflects the removal of officer incentives and 2023 incremental officer labor proposed by the Company. This adjustment decreases the overall revenue requirement by $98,000.

Remove 2024 Union and Non-Union Labor Increases – (line d.) This adjustment removes 2024 union and non-union labor increases included by the Company, reflecting 2023 labor increases for union and non-union employees. This adjustment decreases the overall revenue requirement by $115,000.

Update Regulatory Assessment Fee and Conversion Factor – (line e.) This adjustment reflects the April 2023 adjusted IPUC Regulatory Assessment Fee, per Order No. 35743, of 0.001982, and the impact on the Company's Conversion Factor. This adjustment decreases the overall revenue requirement by $1,000.

Remove Pro Forma 401K expenses – (line f.) This adjustment removes certain pro formed 401K expenses, leaving those actual 401K expenses per the filed historical test period. This adjustment decreases the overall revenue requirement by $10,000.

Miscellaneous Expenses – (line g.) Reflects the net change in operating expenses related to: 1) removing Board of Director expenses and fees ($60,000); 2) including cell phone savings ($6,000); 3) removing pro forma Fee Free expense ($18,000); and 4) injuries and damages 6-year average expense ($3,000). The net effect of this adjustment decreases the overall revenue requirement by $87,000.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Settling Parties effective September 1, 2023 [Rate Year 1].

A. The adjustments discussed above, and agreed to by the Settling Parties, reduce Avista's proposed RY1 natural gas revenue requirement increase of $52,000 to $1,252,000, resulting in an overall 2.71% natural gas base rate increase, effective September 1, 2023. The net rate base agreed to by the Settling Parties for natural gas services is $203.6 million. Mr. Ehrbar discusses the overall net bill impact to customers in RY1 of 1.2% beginning September 1, 2023.

Q. Please provide an overview of the incremental natural gas revenue requirement components agreed to by the Settling Parties effective September 1, 2024 [Rate Year 2].

A. The Settling Parties agreed to an incremental natural gas revenue increase effective September 1, 2024 (RY2), that reflects the adjustments shown below in the excerpted table from the Stipulation:

Table No. 4: Natural Gas Revenue Requirement – RY2

SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT EFFECTIVE SEPTEMBER 1, 2024 (000s of Dollars)				
			Revenue Requirement	Rate Base
	Rate Base Amount Effective September 1, 2024			$ 203,584
	Incremental Revenue Adjustment to September 1, 2023 Rate Change (see Table No. 1):			
a.)	Add Incremental 2023/2024 Related Capital and Expenses:			
	i.	AMA 2024 Capital Additions	$ 823	$ 2,978
	ii.	Property Tax Expense	$ (18)	
	iii.	2024 Union Labor Increase	$ 93	
	iv.	Employee Benefits	$ 61	
	v.	2024 Growth Revenue	$ (798)	
	vi.	Remove Expiring Fee Free Amortization Expense	$ (158)	
	September 1, 2024 Incremental Revenue Adjustment and Rate Base Amount (above September 1, 2023 Rate Change - see Table No. 1)		$ 3	$ 206,562

Q. Please elaborate on the individual line items contained within Table No. 4.

A. A description of the adjustments resulting in the natural gas revenue requirement, effective September 1, 2024 for RY2, follows.

<u>Add Incremental 2023/2024 Related Capital and Expenses to Rate Year 2 (incremental above Rate Year 1)</u> – (line a.) This item includes certain incremental increases in 2023 and 2024 related to capital and expenses in RY2, above RY1 levels, as follows:

- <u>AMA 2024 Capital Additions</u> – (line i.) Includes capital additions from September 1, 2023 through August 31, 2024 on an AMA basis, prior to the Rate Year 2 September 1, 2024, effective date. This adjustment increases the overall revenue requirement by $823,000 and increases net rate base by $2,978,000.
- <u>Property Tax Expense</u> – (line ii.) Includes the incremental change (reduction)

in property tax expense in Rate Year 2 versus Rate Year 1 levels. This adjustment decreases the overall revenue requirement by $18,000.

- 2024 Union Labor Increases – (line iii.) Includes the 2024 union annualized labor increases. This adjustment increases the overall revenue requirement by $93,000.
- Employee Benefits – (line iv.) Includes 2024 incremental employee benefit expenses above Rate Year 1 levels. This adjustment increases the overall revenue requirement by $61,000.
- 2024 Growth Revenue – (line v.) Reflects the 2024 incremental revenue associated with 2024 growth capital, matching the inclusion of 2024 capital investment. This adjustment decreases the overall revenue requirement by $798,000.
- Fee Free Expense – (line vi.) Reflects the removal of the expiring Fee Free Amortization and expense on August 31, 2024. This adjustment decreases the overall revenue requirement by $158,000.

Q. Please summarize the impact of these adjustments on the natural gas revenue requirement agreed to by the Settling Parties effective September 1, 2024 [Rate Year 2].

A. The adjustments discussed above, and agreed to by the Settling Parties, decreases Avista's RY2 natural gas revenue requirement of $120,000 to $3,000, resulting in a 0.01% natural gas base rate increase, effective September 1, 2024. The net rate base agreed to by the Settling Parties for natural gas is $206.6 million. Mr. Ehrbar discusses the overall net bill impact to customers in RY2, effective September 1, 2024, is 0.00%.

VI. OTHER SETTLEMENT COMPONENTS

Q. Please discuss the "Other Settlement Components" starting at page 13 of the Stipulation?

A. The Settling Parties agreed to a number of "Other Settlement Components" which are discussed below, with the exception of electric and natural gas Cost of Service, Rate Spread and Rate Design, PCA and FCA authorized levels, and meetings/conferences agreed to, which are discussed by Mr. Ehrbar.

Q. Please discuss the settlement components agreed to by the Settling Parties related to the Company's Wildfire O&M Expense Balancing Account and Wildfire Resiliency Plan.

A. At paragraph 13 of the Stipulation, the Settling Parties agreed to revise the two-way Wildfire O&M Expense Balancing Account authorized "base" level to $4.367 million annually, effective September 1, 2023. The incremental balance deferred, beyond the existing deferred balance as of September 30, 2022 being amortized over a 4-year period in this proceeding (discussed earlier), will be included for review and recovery in future general rate cases.

At paragraph 14 of the Stipulation, the Settling Parties agreed to the following Wildfire Resiliency Plan changes:

(a) For the Distribution Risk Tree program, the Company will have a third party conduct a study, within a year of Commission Order, to see what the most efficient vegetation management cycle should be in their service area (i.e., 2- or 3-year cycles).

(b) The Company will develop a formal process for Undergrounding Distribution Lines related to the WRP to include project criteria, a selection process, and cost-benefit analysis for completed and future undergrounding distribution line projects related to wildfire mitigation prior to the Company's next general rate case.

(c) The Company will develop process guidelines, including a least-cost least-risk analysis, to evaluate pilot projects and to convert them to full programs within a year of a Commission Order.

(d) The Company will detail all relationships (such as BLM and Forest Service) it has that may benefit the wildfire mitigation program, contribute to program costs, or provide cost sharing opportunities in its WRP.

(e) The Company will detail all funding alternatives and sources it pursued in its WRP and provide an analysis and a comparison of alternatives it considered for each pilot, project, or program when it requests recovery for these costs, including, among other sources, any available funding from current or future federal infrastructure funds.

(f) The Company will file a copy of each version of its WRP with the Commission.

Q. Please discuss the settlement component agreed to by the Settling Parties agreeing to an Insurance Expense Balancing Account.

A. At paragraph 15 of the Stipulation, the Settling Parties agreed to a two-way Insurance Expense Balancing Account to defer the difference in <u>actual</u> insurance expense, up or down, from the <u>authorized</u> "base" level of insurance expense included of $4.009 million for electric and $714,000 for natural gas, effective September 1, 2023. The balance in the deferral will be included for review and recovery in future regulatory proceedings.

Q. Please discuss the settlement component agreed to by the Settling Parties related Regulatory Amortizations.

A. At paragraph 16 of the Stipulation, the Settling Parties agreed to the Regulatory Amortizations as filed by the Company. These regulatory balances and agreed to amortizations include the following new regulatory amortizations, as discussed in the Company's direct filed testimony of Company witness Ms. Schultz:

1) <u>EIM Regulatory Asset</u> – The EIM deferred Idaho electric balance of $699,119 is to be amortized over two years at $349,560 annually. This regulatory asset relates to Avista Case No. AVU-E-20-01 (Order No. 34606 dated March 23, 2020) which allowed the Company to defer, with no carrying charge, its Idaho jurisdictional incremental O&M costs associated with joining the California Independent System Operator's (CAISO) Western Energy Imbalance Market (EIM) until the go-live date. See Schultz, pg. 43, lines 4-10.

2) <u>COVID-19 Regulatory Asset / Liability</u> – The COVID-19 deferred Idaho electric and natural gas <u>regulatory asset</u> balances of $551,026 (electric) and $238,319 (natural gas) are to be amortized over two years at $275,513 (electric) and $119,160 (natural gas) annually. In addition, the COVID-19 deferred Idaho electric and natural gas <u>regulatory liability</u> balances of $2,631,505 (electric) and $266,458 (natural gas) are also to be amortized over two years at $1,315,752 (electric) and $266,458 (natural gas) annually. These regulatory balances are a result of Case No. GNR-U-20-03 (including consolidated Case Nos. AVU-E-20-03; AVU-G-20-03; FLS-W-20-02; GSW-W-20-01; IPC-E-20-19; and PAC-E-20-04), in which the Commission granted Avista authority in Order No. 34718, dated July 8, 2020, to account for unanticipated, emergency-related expenses due to the COVID-19 public health emergency as regulatory assets for possible recovery through future rates. The Commission further ordered that the utilities must analyze the CARES Act NOL provision and apply any benefit to offsetting the deferral account created for emergency-related expenses. Additional benefits, such as reduced employee travel and training, etc. were to also be accounted for, reducing COVID-19 related expense, and account for these balances as regulatory liabilities. These regulatory balances and amortizations reflect the <u>net</u> deferred balance as of June 30, 2022, totaling a net liability owed customers, of approximately $2.1 million for <u>electric</u> and $28,000 for <u>natural gas</u>, and amortization to be included in base rates and amortized for <u>rebate</u> to customers over two years beginning September 1, 2023 of $1.04 million electric and $14,000 natural gas. See Schultz, pg. 44, lines 6-20.

3) <u>Wildfire Resiliency Plan Regulatory Asset</u> – The Wildfire Resiliency expense deferred Idaho electric balance of $2,543,283 is to be amortized over four years at $635,821 annually. This regulatory balance is a result of Case No. AVU-E-20-05, in which Avista was authorized in Order No. 34883, dated December 31, 2020, to defer incremental O&M expenses and monthly depreciation expense associated with the Wildfire Plan investment. See Schultz, pg. 43, lines 11-17.

<u>4) Wildfire Balancing Account Regulatory Asset</u> – The Wildfire Balancing Account expense deferred Idaho electric balance of $5,673,601 is to be amortized over four years at $1,418,400 annually. In the Company's last general rate case, Case No. AVU-E-21-01, the Commission approved in

Order No. 35156 a two-way Wildfire O&M Expense Balancing Account to defer the difference in actual O&M Wildfire expenses, up or down, from the authorized "base" level. This amortization balance includes the Idaho <u>electric</u> deferred costs from September 1, 2021 through September 30, 2022, totaling approximately $5.7 million. The Wildfire Balancing Account will continue to accrue additional wildfire expense deferrals up or down over time, resulting in additional amortizations of these deferrals in future rate case proceedings. See Schultz, pg. 43, line 19 – pg 44, line 5.

5) <u>Idaho Earnings Test Regulatory Liability</u> – The Idaho electric Earnings Test deferred credit balance of $686,970 is to be amortized over two years at $343,485 annually. As a part of the Settlement Stipulation approved by the Commission in the Company's 2015 general rate case, Case No. AVU-E-15-05 (Order No. 33437 dated December 18, 2015), the Company was ordered to rebate $5.6 million in 2014 electric revenue sharing to customers through electric Schedule 97, or approximately $2.8 million annually through December 31, 2017. This rebate was first approved in the Company's 2012 general rate case, Case No. AVU-E-12-08 (Order No. 32769 dated March 17, 2013)[6] and was extended through December 31, 2015 as part of Case No. AVU-E-14-05.[7] This deferred credit balance is the <u>residual</u> balance remaining as of June 30, 2022 to be amortized as a <u>rebate</u> to customers. See Schultz, pg. 44, line 21 – pg 45, line 10.

6) <u>Tax Reform Amortization Liability</u> - The Idaho electric Tax Reform deferred credit balance of $130,287 is to be amortized over two years at $66,454 annually. In Case No. AVU-E-18-03, Avista was authorized in Order No. 34276, dated March 19, 2019, beginning April 1, 2019 to use Tariff Schedule 74 to return to customers $5.766 million in temporary tax benefits the Company received under the federal Tax Cuts and Jobs Act of 2017 (TCJA) from January 1 – May 1, 2018. This amortization reflects the <u>residual</u> Idaho <u>electric</u> balance plus interest through August 31, 2023, to be included in rates and amortized for <u>rebate</u> to customers. See Schultz, pg. 45, lines 11-20.

7) <u>AFUDC Equity Tax Balance</u> - The Idaho natural gas AFUDC Equity Tax deferred debit balance of $59,919 is to be amortized over two years at $29,960 annually. As part of Case No. AVU-G-21-03 (Order No. 35150 dated August 30, 2021), the Commission authorized the Company to refund to customers through Schedule 178 deferred credit balances associated with

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[6] In the Company's 2012 general rate case, Case No. AVU-E-12-08 (Order No. 32769 dated March 17, 2013), the Commission ordered Avista to refund to customers one-half of any earnings above the 9.8% return on equity for each of the years 2013 and 2014.

[7] Stipulation and Settlement – AVU-E-15-05 & AVU-G-15-01, p. 14, paragraph 16. Electric Rebate Extension.

Allowance for Funds Used During Construction (AFUDC)[8], as well as depreciation expense and the CARES Act benefits, effective September 1, 2021. This amortization collects the residual over-amortized balance. See Schultz, pg. 46, lines 1-8.

The net amortization of the new regulatory assets and liabilities listed above for items 1) – 7) result in a two-year annual amortization expense agreed to by the Settling Parties of $954,000 for Idaho electric and $16,000 for Idaho natural gas.

In addition, the Settling Parties agreed to the as-filed changes to the following existing regulatory amortizations that were discussed and revised in my direct testimony:

8) Colstrip Regulatory Amortization – Colstrip amortization as filed by the Company reflects the recovery of Avista's investment in the Colstrip Units 3 and 4 generating facilities (reflecting an accelerated depreciation rate of 2027), including the Colstrip capital additions through December 31, 2022 in the Colstrip Regulatory Asset, for recovery over its authorized amortization period. The effect of the change in the amortization of the Colstrip Regulatory Asset decreases the Colstrip Regulatory amortization expense to $728,000 annually. In the Company's filed case, it explained that the recovery of Avista's investment in the Colstrip Units 3 and 4 generating facilities and Colstrip Regulatory Asset was per Commission prior Order 34276 in Case No. AVU-E-18-03, and Case No. AVU-E-21-03. See Andrews direct, pg. 11, line 2 – pg. 14, line 12.

9) Excess Deferred Income Tax Amortization (EDIT) – The Company switched its method of amortizing EDIT from the Average Rate Assumption Method (ARAM) to the Reverse South Georgia Method (RSGM) related to cost of removal that had previously not been properly accounted for as required by the IRS. To correct this inadvertent error, the Company made this change in amortization method effective January 1, 2022, increasing the amount of EDIT returned to customers annually by approximately $1.9 million on a system basis in 2024 forward. See Andrews direct, pg. 32, line 20 – pg. 33, line 11 and Exhibit No. 5, Schedule 1.

Q. Please discuss the settlement component agreed to by the Settling

[8] In a prior Avista case, Case No. AVU-G-19-01 (Order No. 34326 dated May 2, 2019), the Commission approved the Company's application for accounting and ratemaking treatment related to its AFUDC.

Parties related the Revenue Normalization Adjustments.

A. At paragraph 17 of the Stipulation, the Settling Parties agreed to the test year revenue normalization adjustments, as included by the Company in its as-filed case, inclusive of the change to 20-year rolling average "normal" weather and monthly regression factors.

Q. Finally, please discuss the settlement component agreed to by the Settling Parties related the Depreciation Rates.

A. At paragraph 18 of the Stipulation, the Settling Parties agreed to the depreciation rates, as included by the Company in its as-filed case, for purposes of the agreed-to depreciation expense included in the Company's filing and agreed to by the Settling Parties in this settlement.[9] The depreciation rates as-filed by the Company in this proceeding include the proposed depreciation rates per the Company's updated Depreciation Application in Case Nos. AVU-E-23-02 and AVU-G-23-02, requesting approval for its proposed change to electric and natural gas book depreciation rates.[10] To the extent depreciation rates included in this general rate case, or the effective date of approved depreciation rates (i.e. September 1, 2023), as proposed by the Company, vary from the depreciation rates or effective date ultimately approved in Case Nos. AVU-E-23-02 and AVU-G-23-02, the Company will defer the difference in depreciation expense included and approved in this case, versus the actual depreciation expense approved per Case Nos. AVU-E-23-

[9] Inclusion of the updated (proposed) depreciation study depreciation rates in this proceeding results in an overall decrease in electric and natural gas annual depreciation expense from existing depreciation expense levels.

[10] The Company also requested that the Commission approve deferred accounting treatment if allocated depreciation rates are not approved by all jurisdictions prior to September 1, 2023, resulting in a difference between allocated depreciation expense included in Case Nos. AVU-E-23-01 and AVU-G-23-01, and allocated depreciation expense ultimately approved in the Depreciation Case Nos. AVU-E-23-02 and AVU-G-23-02.

02 and AVU-G-23-02 on a monthly basis, for review and recovery or return to customers in a future general rate case.

VII. CONCLUSION

Q. In conclusion, why is this Stipulation in the public interest?

A. This Stipulation strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.

The terms of the Stipulation represent electric and natural gas base rate changes designed to provide necessary retail revenues over the Two-Year Rate Plan from September 1, 2023 through August 31, 2025. The Settling Parties have agreed that the Company has demonstrated the need for the revenue changes for its electric and natural gas operations, thus providing recovery of its costs over the Two-Year Rate Period.

In the final analysis, any settlement reflects a compromise in the give-and-take of negotiations. The Commission has before it a Stipulation that is supported by sound analysis and supporting evidence, the approval of which is in the public interest.

Q. Does this conclude your direct testimony?

A. Yes, it does.